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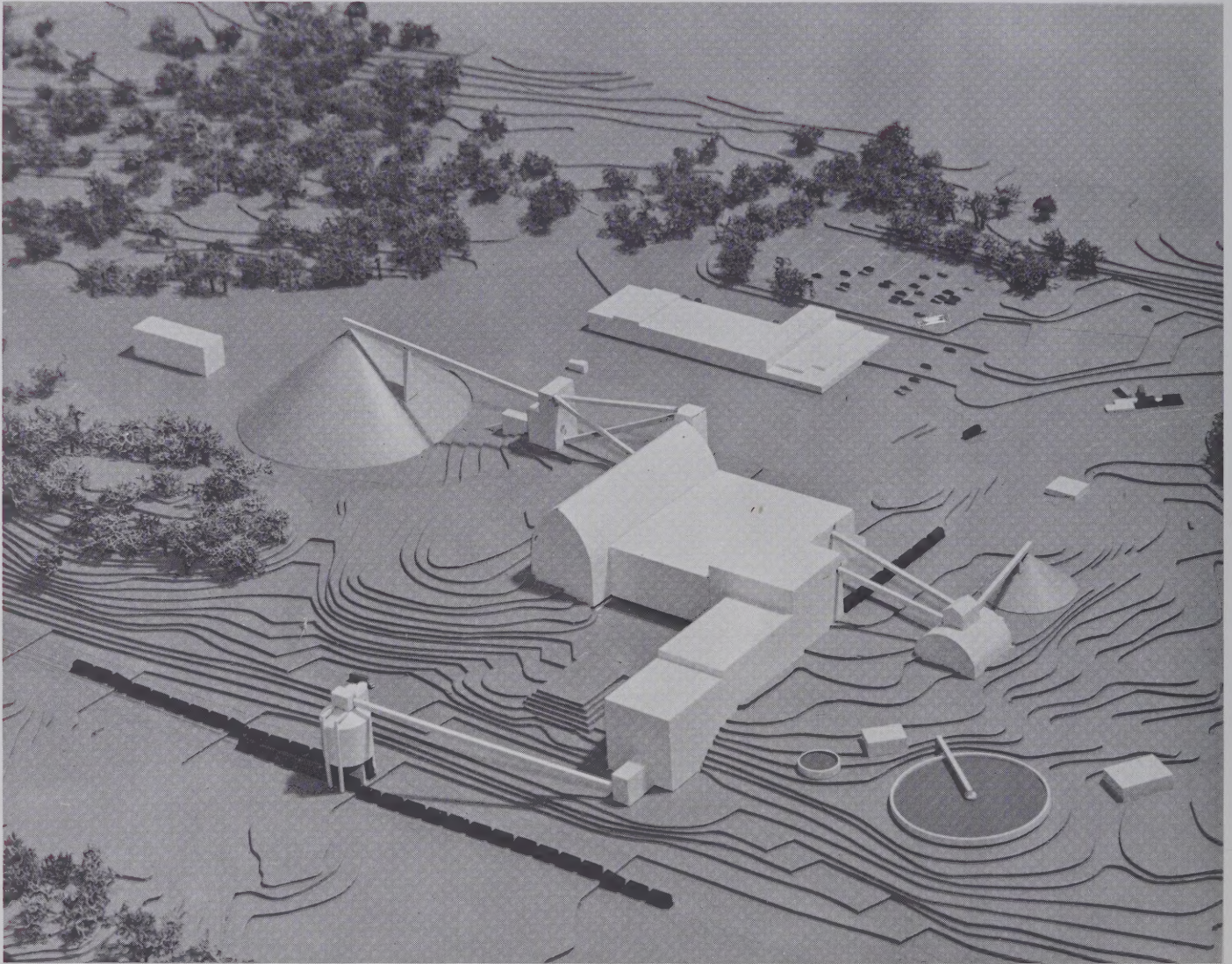
**DOMINION
FOUNDRIES
AND
STEEL,
LIMITED**

**ANNUAL
REPORT
1965**

DOFASCO

MARCH
28, 1966

THE ANNUAL GENERAL MEETING of shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 29, 1966 at 12:00 o'clock noon. Formal notice of the meeting together with a form of proxy will be mailed to shareholders prior to the meeting.



*Model of the Sherman Mine,
Timagami, Ontario*

ANNUAL REPORT — 1965

DOMINION FOUNDRIES AND STEEL, LIMITED

HAMILTON, ONTARIO

FOR THE YEAR ENDED DECEMBER 31, 1965
ON A CONSOLIDATED BASIS

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DOFASCO

DIRECTORS

HARRY N. BAWDEN	Toronto
DANIEL F. HASSEL	Hamilton
JOHN D. LEITCH	Toronto
FREDERICK A. LOOSLEY	Hamilton
BRUCE A. NORRIS	Chicago, Illinois
THOMAS F. RAHILLY	Toronto
W. HAROLD REA	Toronto
FRANK A. SHERMAN	Hamilton
FRANK H. SHERMAN	Hamilton
FREDERICK W. SHERMAN	Loudonville, New York
MORLEY F. VERITY	Brantford
ARTHUR G. WRIGHT	Hamilton

EXECUTIVE OFFICERS

FRANK A. SHERMAN	<i>Chairman</i>
ARTHUR G. WRIGHT	<i>Vice Chairman — Finance</i>
FREDERICK A. LOOSLEY	<i>Vice Chairman — Research and Development</i>

FRANK H. SHERMAN	<i>President and Chief Executive Officer</i>
R. ROSS CRAIG	<i>Executive Vice President — Commercial</i>
JOHN G. SHEPPARD	<i>Executive Vice President — Financial and Secretary</i>
DANIEL F. HASSEL	<i>Vice President — Industrial Relations</i>
DAVID O. DAVIS	<i>Vice President — Engineering</i>
DAVID A. LINDSEY	<i>Vice President — Purchasing</i>
WILLIAM C. HASSEL	<i>Vice President — Works Manager</i>
W. RUSSELL WEIR	<i>Vice President</i>
F. JOHN McMULKIN	<i>Vice President — Research</i>
JACK PLUMPTON	<i>Comptroller</i>
DOROTHY M. CAULEY	<i>Assistant Secretary</i>

TRANSFER AGENTS AND REGISTRARS

National Trust Company, Limited — Toronto, Montreal, Vancouver, Winnipeg, Calgary
The Bank of Nova Scotia Trust Company — New York

TRANSFER AGENTS

Eastern & Chartered Trust Company — Halifax

DOMINION FOUNDRIES AND STEEL, LIMITED

HIGHLIGHTS

	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
Production of ingots and castings — net tons	1,785	1,584	1,391	1,243	1,126
Sales	\$268,347	\$229,194	\$177,314	\$167,502	\$133,385
Net profit	\$ 25,609	\$ 23,457	\$ 19,741	\$ 16,557	\$ 14,094
Net profit per common share *	\$ 1.61	\$ 1.53	\$ 1.29	\$ 1.09	\$ 0.98
Dividends declared — per common share *	\$ 0.57½	\$ 0.48¾	\$ 0.41¼	\$ 0.40	\$ 0.36¼
per preferred share *	\$ 3.17	—	—	—	—
Working capital	\$ 76,767	\$ 52,769	\$ 37,280	\$ 35,488	\$ 33,130
Capital expenditures — Plant	\$ 38,244	\$ 37,691	\$ 18,114	\$ 16,923	\$ 12,049
Ore properties	\$ 6,577	\$ 15,969	\$ 7,775	\$ 10,351	\$ 4,951
Depreciation	\$ 14,548	\$ 13,114	\$ 11,821	\$ 10,956	\$ 10,261
Average number of employees *	8,625	7,579	5,942	5,892	4,543
Number of common shareholders *	18,818	15,924	13,060	13,381	11,206

1964 and 1965 figures include Canadian Trailmobile Limited.

1962 and subsequent years include National Steel Car Corporation, Limited.

Figures are in thousands except where indicated *

DOMINION FOUNDRIES AND STEEL, LIMITED

DIRECTORS' REPORT

To the Shareholders:

Your directors are pleased to present the annual report of the company for the year ended December 31, 1965, incorporating therein, on a consolidated basis, the results of its wholly-owned subsidiary, National Steel Car Corporation, Limited and of Canadian Trailmobile Limited, a partly owned subsidiary of National Steel Car Corporation, Limited.

SUMMARY

For your convenience a summary of production and financial data for the past five years appears on page 5.

OPERATIONS

During 1965 new records were again established in production, sales and profits. Production of steel ingots and steel castings was ahead of last year by 13%. Consolidated sales for the year increased 17% to \$268,347,000 against \$229,194,000 in 1964.

Operations of subsidiaries were at peak levels for the greater part of the year although profit margins at National Steel Car were reduced, primarily as the result of increased costs not recovered in current selling prices.

Modest increases in selling prices of steel products were effected early in 1965, the first general price increase since 1957, to help offset higher costs of wages, materials and services.

The installation of new and improved seven-stand hot mill rolling equipment during the year caused interruptions in the production of hot rolled coils. In order to maintain deliveries to customers it was necessary to purchase hot rolled coils and to have ingots converted to coils, both at additional cost.

Increased efficiencies in the operation of our blast furnaces resulted in greater output and, as the capacity of our coke ovens was exceeded, we were obliged to make extensive purchases of higher cost coke. This extra cost will be eliminated on completion of additional coke ovens scheduled for the latter part of 1966.

EARNINGS

Net earnings after income taxes for the year totalled \$25,609,000 compared with \$23,457,000 in 1964, an increase of 9%. Earnings per common share were \$1.61 after providing for preferred dividend, against \$1.53 last year.

Depreciation charged for the year totalled \$14,548,000 and was written at rates considered adequate to amortize the cost of facilities over their useful life. Maximum rates of capital cost allowances permitted under income tax regulations are claimed for purposes of taxation. These allowances are important in developing funds to help finance the large capital expenditures necessary to promote and maintain an efficient and expanding operation.

During the year, the Scully Mine at Wabush and the Arnaud pellet plant at Pointe Noire commenced operations. As our share of pellets received from this source was not used until 1966 and no mine income was realized in the year 1965, depreciation was not charged against our portion of the joint venture fixed assets for the period in 1965 that the mine was in operation.

FINANCIAL POSITION

The financial position of the company grew stronger during 1965.

On May 4, 1965, under Supplementary Letters Patent, 500,000 preferred shares of the par value of \$100 each were authorized of which 250,000 shares were issued as 4¾% cumulative redeemable preferred, Series A. Proceeds of this issue, after deducting commission, totalled \$24,375,000. In addition, common shares were issued under a stock option plan adopted in 1964 for certain officers and staff, for a consideration of \$454,000.

Debentures amounting to \$2,335,000 were retired during the year either by purchase for cancellation or redemption.

The revolving bank credit of \$35,000,000 U.S. funds repayable December 31, 1971, was not utilized to the full extent in 1965 because of the availability of funds from the issue of preferred shares. At December 31, 1965, the company's outstanding indebtedness against this credit stood at \$20,500,000 U.S., a reduction of \$2,000,000 from the previous year end. The remainder of the credit is expected to be used during 1966.

The working capital position has expanded from \$52,769,000 at the beginning of 1965 to \$76,767,000 at December 31, 1965, an increase of \$23,998,000.

Inventories show a substantial increase over 1964. This is due in general to growth in production which necessitated a larger build-up of raw materials and supplies at the end of the year. Work-in-process inventories of ingots were accumulated in considerable quantities because of the hot mill shut down, and a scheduled blast furnace reline in 1966.

Substantial capital projects in progress at the year end accounted for the increase in accounts payable.

Details of the changes in the company's financial position are set out in the Consolidated Statement of Source and Disposition of Funds for the year on page 13.

DIVIDENDS

Dividends declared on the 4¾% cumulative redeemable preferred shares totalled \$3.17 per share. These comprise a dividend of 80c per share covering the two months period to August 1, 1965 and two regular quarterly dividends on November 1, 1965 and February 1, 1966, of \$1.18 and \$1.19 per share respectively.

Dividends declared on the common shares amounted to 57½c per share, a total of \$8,842,000 for the year, being a 12½c per share dividend paid on April 1, 1965 and three quarterly dividends of 15c per share each paid on July 1 and October 1, 1965 and January 1, 1966. The latter was the 115th consecutive quarterly dividend.

CAPITAL EXPENDITURES

Capital expenditures during the year 1965 for additions and improvements to manufacturing facilities and mine projects amounted to \$44,821,000. Capital expenditures authorized at December 31, 1965, totalled approximately \$101,000,000 including \$42,600,000 for mine projects.

MANUFACTURING FACILITIES

Expenditures in 1965 on plant facilities at Hamilton amounted to \$38,000,000.

The additions and changes in our hot mill, referred to in 1964 report, were substantially completed by the end of 1965. These include the addition of three stands to the finishing mills in the hot rolling department and the replacement of the 5,000 horse-power motor on the two-high roughing mill by an 8,000 horse-power unit. These additions will increase rolling capacity and provide a superior hot rolled product.

In order to meet the growing demand for cold rolled and galvanized steels, it has been necessary to expand finishing facilities. Consequently, substantial expenditures are concentrated in this area for a third pickle line, a two-stand cold reduction and temper mill and annealing furnaces — all of which are now ready for production — together with buildings to house these facilities. Three additional stands, to form a five-stand, 66 inch sheet mill, are on order.

Expenditures authorized at December 31, 1965 for manufacturing facilities at Hamilton amounted to \$58,000,000. These include completion of certain of the installations referred to above together with the construction of a fourth oxygen plant to meet requirements for present and future expanded steelmaking and a battery of fifty-three new coke ovens to provide self-sufficiency in coke.

It is also planned to install a scarfing machine in the hot mill to improve quality and reduce costs of finished steel and a third continuous galvanizing line to meet increasing demand for this product.

IRON ORE PROPERTIES

Preliminary work at the Sherman Mine site near Timagami in Northern Ontario is proceeding and construction of the service facilities is under way. It is anticipated that this mine will come into production in 1968.

The Scully Mine at Wabush, in which we have a 15% interest, commenced operations during 1965, as did the related pelletizing plant at Pointe Noire, Québec. The use of pellets from this source will have a favourable effect on future earnings.

Since the year-end, on February 7, 1966, a fire damaged the concentrator plant at Wabush, interrupting the processing of ore and delaying full production. The direct damage is fully covered by insurance. At the time of writing partial production had been resumed in the mills and concentrator and it is anticipated that full repairs will be completed by late summer. In any event, sufficient ore has been provided to assure full operations in Hamilton and every effort is being made to minimize the effect of this fire on Dofasco's earnings.

RESEARCH

The company's research staff and facilities have been actively developed in recent years and directed towards the following principal areas:

The pre-reducing of iron bearing material to improve blast furnace production rates and costs which is now being pilot plant tested.

A method for reclaiming all our waste iron oxide fines, which has been brought to the point of engineering and costing.

A new method of desiliconizing hot metal, now being tested.

Development of a new surface finish for galvanized steel now being tried on the production line.

Testing of continuous cast steel on which a feasibility study is under way.

The development of steels having superior electrical properties, including very high grade random oriented and grain oriented steels.

Investigations into the development of high strength steels for containers and other products. Basic research in this field is being sponsored at the University of Windsor.

Research in the area of tin conservation in tin mill products.

MANAGEMENT CONTROL SYSTEMS

Competition demands that a Canadian industry must operate at the highest possible level of efficiency, both as to its internal operations and the quality of products shipped. In order to achieve this end, Dofasco has assembled a closely integrated group of engineers and statisticians. This group carries out statistical studies of production performances throughout the plant to develop improved management control systems. The studies include process control by computer for the oxygen steelmaking furnaces; the programming of the soaking pits in the hot mill for optimum charge weights and extensive studies in the plant operations in connection with long-range planning.

EMPLOYEE RELATIONS

Your company is recognized throughout Canada as the leader in the industry for good employee-management relations, and there is no doubt that our profit sharing system is the solid backbone of these relations.

Careful study has been given during the past year to up-dating and improving the Profit Sharing Plan so as to put it on a basis more suited to present day requirements.

Accordingly, with the approval of the Board of Directors, the Profit Sharing Plan has been amended. Effective in 1966, the maximum payable as profit sharing will be increased from four to six times the employee's saving and any amount in excess of three times the employee's saving, or portion thereof, may, at the option of the employee, be taken in cash each year, or put in a separate deferred profit sharing fund with withdrawal options. These changes have been enthusiastically approved by the employees.

We would like to emphasize the point that we have made before in our annual reports. The friendly and co-operative spirit that exists at Dofasco is of immeasurable benefit to all who contribute to the success of any business — shareholders, customers, management and employees.

MEDICAL CENTRE

The company's personnel, safety and medical buildings have become inadequate. A new two-storey building, incorporating many of the features of the main office building, is planned to fill this need. This building will contain a medical centre to provide examination, treatment and first-aid facilities and will be named the D. F. Hassel Centre in honour of our Vice President — Industrial Relations. Mr. D. F. Hassel has the longest service of any employee, having joined the company in November of 1912.

COMMUNITY ACTIVITIES

The company is conscious of the need to participate in the financial support of educational, charitable and social service projects. Increased contributions for social and educational needs in the community were made during the past year.

Our employees give both their time and financial support to these activities, serving on the major social, educational and area planning boards of the community.

LOOKING AHEAD

The general order outlook is good as most segments of the steel consuming industry are busy at the present time. The construction industry is feeling the full impact of Expo '67 and the automotive industry continues to work at capacity. We expect that during 1966, we shall be able to make a better assessment of the effect of the new automotive agreement between Canada and the United States.

We continue to work with our customers in providing a better product for their end uses and, at the same time, in developing new and better quality steels for new purposes. It has been very interesting to see how the availability of light gauge double reduced tin plate has enabled the can producers to make tremendous strides in changing the soft drink industry over from glass bottles to tin cans. It is expected that the lighter gauge product will become an increasingly significant factor in tin mill shipments over the next several years.

The new seven-stand finishing mill in the hot rolled division is turning out a wider range of hot rolled product with a superior finish and improved quality that is being well received by the trade. We are greatly increasing our output of high grade silicon electrical steels and our shipments this year will be substantially higher than 1965.

We expect that production at Baycoat Limited will commence shortly. This company will produce prepainted galvanized and cold rolled steel as a further service to our customers. The market for this new product looks very strong, and it should become another large outlet for our flat rolled steels. In conjunction with this, new and better finishes of galvanized steel are being developed, and it is hoped this will help accelerate the demand for the full capacity of our new No. 3 galvanize line.

RETIREMENT

On behalf of his fellow directors, management and employees, we wish to pay tribute to Mr. F. A. Loosley, Vice Chairman — Research and Development, whose retirement was announced recently. Mr. Loosley joined Dofasco in 1915 and has since held a number of executive positions. He has played an important role in the company's growth and has contributed to many of its successes, including the installation of North America's first oxygen steelmaking furnaces.

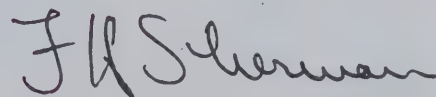
The Directors wish also to express their appreciation to the management and all employees for the results achieved during the year.

Respectfully submitted,

BOARD OF DIRECTORS



Chairman



President

Hamilton, Ontario
March 24, 1966.

DOFASCO

DOMINION FOUNDRIES AND STEEL, LIMITED

(INCORPORATED UNDER THE LAWS OF CANADA)

ASSETS

	<u>1965</u>	<u>1964</u> (NOTE 1)
CURRENT:		
Cash	\$ 4,763	\$ 4,900
Investment in short term securities at cost and accrued interest (approximating market value)	8,726	1,503
Accounts receivable	33,827	29,720
Inventories valued at the lower of cost or market	65,703	45,840
Total current assets	<u>113,019</u>	<u>81,963</u>
FIXED (notes 2, 3 and 4):		
Land, buildings and equipment at cost	356,824	314,063
Less accumulated depreciation	<u>125,115</u>	<u>112,627</u>
	<u>231,709</u>	<u>201,436</u>
OTHER:		
Investment in other companies at cost (note 2)	5,403	4,500
Deferred charges and other assets	<u>2,526</u>	<u>1,274</u>
	<u>7,929</u>	<u>5,774</u>
On behalf of the Board:		
F. A. Sherman, Director		
F. H. Sherman, Director		
	<u>\$352,657</u>	<u>\$289,173</u>

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1965

(in thousands of dollars — with comparative figures at December 31, 1964)

LIABILITIES

	1965	1964 (NOTE 1)
CURRENT:		
Bank indebtedness	\$ 2,145	\$ 850
Accounts payable and accrued charges	25,028	14,726
Trustees of Employees' Savings and Profit Sharing Fund	3,356	3,161
Income and other taxes payable	2,118	6,568
Dividends payable	2,605	1,920
Sinking fund payments due within one year (note 5)	1,000	1,969
Total current liabilities	36,252	29,194
LONG TERM DEBT (note 5)	52,444	55,953
ACCUMULATED TAX REDUCTIONS applicable to future years (note 7)	69,770	50,710
MINORITY INTEREST in partly-owned subsidiary	1,288	1,216
SHAREHOLDERS' EQUITY:		
Capital stock (note 6) —		
500,000 preferred shares of the par value of \$100 each authorized of which 250,000 4¾% cumulative redeemable preferred shares, Series A, are issued	25,000	
25,000,000 common shares of no par value* authorized of which 15,387,348 shares are issued (1964 — 15,362,212 shares).	50,038	49,584
Earned surplus	117,865	102,516
	192,903	152,100
	<u>\$352,657</u>	<u>\$289,173</u>

DOMINION FOUNDRIES AND STEEL, LIMITED

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR YEAR ENDED DECEMBER 31, 1965

(in thousands of dollars — with comparative figures for 1964)

	<u>1965</u>	<u>1964</u> (NOTE 1)
PROFIT AND LOSS		
Sales	\$268,347	\$229,194
Profit from operations (after providing for minority interest) before the following deductions	\$ 73,120	\$ 67,094
Depreciation (note 7)	14,548	13,114
Allotted to Employees' Savings and Profit Sharing Fund	3,356	3,161
Interest on long term debt (less discount on purchase of debentures)	2,611	2,169
	<u>20,515</u>	<u>18,444</u>
Profit from operations	52,605	48,650
Income from investments	904	324
Profit before income taxes	53,509	48,974
Income taxes (note 7)	27,900	25,517
Net profit for year	<u>\$ 25,609</u>	<u>\$ 23,457</u>
 EARNED SURPLUS		
Balance at beginning of year	\$102,516	\$ 86,544
Add net profit for year	25,609	23,457
	128,125	110,001
Deduct:		
Dividends declared —		
4¾% preferred shares, Series A	793	
Common shares	8,842	7,485
	<u>9,635</u>	
Commissions on issue of preferred shares	625	7,485
Balance at end of year	<u>\$117,865</u>	<u>\$102,516</u>

DOMINION FOUNDRIES AND STEEL, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS FOR YEAR ENDED DECEMBER 31, 1965

(in thousands of dollars)

SOURCES OF FUNDS:

Operations —		
Net profit for year	\$ 25,609	
Charges not requiring cash outlays:		
Depreciation	14,548	
Income tax reductions (note 7)	<u>19,060</u>	\$ 59,217
Increase in minority interest in partly-owned subsidiary		72
Capital stock issued for cash —		
Preferred shares (less commissions)		24,375
Common shares		<u>454</u>
		\$ 84,118

DISPOSITION OF FUNDS:

New facilities and equipment — manufacturing	38,244
— iron ore projects.	6,577
Dividends to shareholders	9,635
Debentures purchased for cancellation or due within one year	1,366
Reduction of long term bank indebtedness	2,143
Increase in other assets	<u>2,155</u>
	60,120

INCREASE IN WORKING CAPITAL 23,998

Represented by:

 Increases in —

Cash and short term investments	\$ 7,086
Accounts receivable	4,107
Inventories	<u>19,863</u>
	31,056
Less additional current liabilities	<u>7,058</u>
	<u>\$ 23,998</u>

WORKING CAPITAL AT BEGINNING OF YEAR 52,769

WORKING CAPITAL AT END OF YEAR \$ 76,767

DOMINION FOUNDRIES AND STEEL, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1965

(1) BASIS OF CONSOLIDATION —

The consolidated financial statements for 1965 incorporate the assets, liabilities and earnings of the wholly-owned subsidiary, National Steel Car Corporation, Limited (called National) and of Canadian Trailmobile Limited (called Trailmobile), a partly-owned subsidiary of National, with due provision for minority interest. In the accompanying statements the comparative figures for 1964 include the assets, liabilities and earnings of Trailmobile not heretofore consolidated.

(2) PARTICIPATION IN JOINT VENTURES —

The company has an undivided interest in three joint ventures — such interest being 15% of the Wabush project (Scully Mine), 16.3% in a related pellet plant and 90% in the Sherman Mine. The company's share of expenditures on these projects to December 31, 1965 aggregates \$45,862,000 (1964 — \$39,046,000) and such joint venture assets are included in the accompanying balance sheet under the captions to which they relate — principally fixed assets and investment in other companies.

(3) FIXED ASSETS —

These consist of the following at December 31, 1965:

	Cost	Accumulated depreciation	Depreciated value
Manufacturing —			
Land	\$ 5,301,000		\$ 5,301,000
Equipment	257,926,000	\$112,649,000	145,277,000
Buildings and other	52,530,000	12,466,000	40,064,000
	<u>315,757,000</u>	<u>125,115,000</u>	<u>190,642,000</u>
Iron ore projects —			
Wabush project (including pellet plant)	37,120,000		37,120,000
Sherman Mine	3,947,000		3,947,000
	<u>41,067,000</u>		<u>41,067,000</u>
	<u>\$356,824,000</u>	<u>\$125,115,000</u>	<u>\$231,709,000</u>

(4) COMMITMENTS —

Capital expenditures authorized at December 31, 1965 amounted to approximately \$101,000,000 (including \$42,600,000 for the joint ventures referred to above), of which it is expected that approximately \$73,000,000 will be expended in 1966.

DOMINION FOUNDRIES AND STEEL, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1965

(5) LONG TERM DEBT —

	Originally authorized and issued	Outstanding December 31, 1965	Outstanding December 31, 1964
4½% debentures maturing March 15, 1969 (sinking fund of \$300,000 per annum)	\$ 6,000,000	\$ 3,859,000	\$ 4,186,000
4¾% debentures maturing February 1, 1971 (sinking fund of \$950,000 per annum 1966 to 1968 and \$1,250,000 per annum 1969 and 1970)	15,000,000	9,525,000	10,533,000
6¾% debentures maturing December 1, 1974 (sinking fund of \$1,000,000 per annum).	20,000,000	18,000,000	19,000,000
Revolving bank credit of \$35,000,000 U.S. funds repayable December 31, 1971 bearing interest at prevailing rates — indebtedness at December 31:			
1965 — \$20,500,000 U.S.		22,060,000	
1964 — \$22,500,000 U.S.			24,203,000
Outstanding at December 31		53,444,000	57,922,000
Less sinking fund payments due in succeeding year included under current liabilities		1,000,000	1,969,000
		<u>\$ 52,444,000</u>	<u>\$ 55,953,000</u>

(6) CAPITAL STOCK —

By supplementary letters patent dated May 4, 1965 the authorized share capital of the company was increased by creating 500,000 preferred shares of the par value of \$100 each. During the year, 250,000 4¾% cumulative redeemable preferred shares, Series A, of the par value of \$100 each were issued for cash, \$25,000,000.

A plan was adopted in 1964 authorizing employee stock options extending to April 1974 and covering a maximum of 480,000 common shares. The number of common shares covered by each option varies with changes in the optionee's remuneration and therefore cannot be determined until the last year of its term. To December 31, 1965 options were granted to forty-three employees (of whom nine are officers) at \$18 per share and to one employee at \$25 per share. During 1965, 25,136 common shares were issued under this plan for cash, 24,958 shares at \$18 per share and 178 shares at \$25 per share.

DOMINION FOUNDRIES AND STEEL, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1965

(7) DEPRECIATION —

As a result of claiming for tax purposes capital cost allowances and mine preproduction expenses in excess of recorded depreciation, income taxes payable will be less than the current year's provision by \$19,060,000 (1964 — \$13,995,000) and accordingly this amount is included in the balance sheet under the item "Accumulated tax reductions applicable to future years".

(8) STATUTORY INFORMATION —

Remuneration received in 1965 by directors as directors, officers or employees, \$319,000.

AUDITORS' REPORT

To the Shareholders of Dominion Foundries and Steel, Limited:

We have examined the consolidated balance sheet of Dominion Foundries and Steel, Limited as at December 31, 1965 and the consolidated statements of profit and loss and earned surplus and source and disposition of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies at December 31, 1965, the results of their operations for the year then ended and the factors giving rise to changes in their working capital during the year, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 27, 1966.

CLARKSON, GORDON & Co.
Chartered Accountants



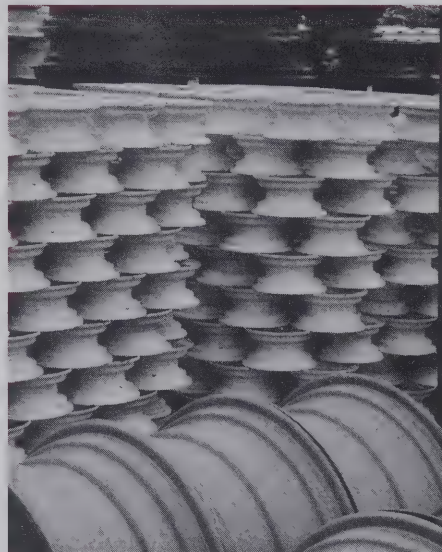
Model of the Steel Pavilion at Expo '67

DOFASCO MARKETING

The Canadian steel industry increased production 9½ per cent to 9.8 million ingot tons in 1965, but total Canadian consumption is estimated to have been the equivalent of more than a million ingot tons higher. This substantial increase reflects the high levels of activity in Canadian manufacturing and construction throughout the year. A continuation of this growth is expected in 1966, with the Canadian mills supplying a larger proportion of the demand than was possible last year. However, increased competition is anticipated both from other materials and from other sources of steel mill products.

Dofasco has been preparing for the greater demands and for the competition. In addition to new plants and equipment, marketing activities have been stepped up, and the development engineering group has made notable progress.

Dofasco steels find use in a variety of ways. Realignment in the automobile industry is resulting in different steel demands. Convenience packaging, such as aerosol containers and beverage cans, suggests a continuing requirement for tin mill products. The construction industry gains time and benefits from reduced manpower needs when steel is used in culvert installations.



Applications for flat rolled steels in construction keep expanding. The vitreous enamelled steel at this Canadian university shows how steel blends with other materials to maintain the traditional atmosphere of older buildings in the group.



Widespread adoption of galvanized steel guardrail on Canadian roads reflects an increased concern for highway safety.



DOFASCO PRODUCTS

Hot Rolled Sheet and Strip
Hot Rolled Plate
Skelp
Cold Rolled Sheet and Strip
Vitreous Enamelling Sheet
Silicon Electrical Sheet and Strip

Tin Mill Black Plate
Electrolytic and Hot Dipped Tin Plate
Galvanized Sheet and Strip
Carbon, Alloy and Stainless Steel Castings
Pig Iron
Coke Oven By-Products

SUBSIDIARIES

National Steel Car Corporation, Limited
Canadian Trailmobile Limited

JOINT VENTURES

The Sherman Mine, Timagami, Ontario
The Scully Mine, Wabush, Newfoundland
Arnaud Pellets, Pointe Noire, Quebec
Kimberley Ventures, Australia

ASSOCIATED COMPANIES

Baycoat Limited, Hamilton, Ontario (50% ownership)
Itmann Coal Company, West Virginia (6% ownership)
Arnaud Railway Company, Quebec
Knoll Lake Minerals Limited, Newfoundland
Northern Airport Limited, Newfoundland
Northern Land Company Limited, Newfoundland
Twin Falls Power Corporation, Limited, Newfoundland
Wabush Lake Railway Company, Limited, Newfoundland

DOFASCO